

## **Principles of Economics V3 | Table of Contents**

### **Chapter 1: Welcome to Economics!**

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- Interpret supply schedules and supply curves (5)
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- Use a graph or table to determine the monopolistic competitor's profit (40)
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## **Chapter 12: Environmental Protection and Negative Externalities**

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- Understand the tradeoff between environmental protection and production (5)

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- Understand the positive externalities of education (5)
- Understand how subsidies can be a solution to positive externalities and illustrate this graphically (10)
- Define intellectual property rights and understand why they are not always effective for promoting innovation (5)
- Understand alternative government policies for promoting research and development (5)

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- Understand common resources and the tragedy of the commons (5)
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  - Understand how imperfectly competitive firms choose how much labor to employ (10)
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#### 14.2 Wages and Employment in an Imperfectly Competitive Labor Market

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- Understand how unions can affect wages (5)
- Explain the tradeoff between wages and employment and understand the potential impacts of unions on worker productivity (5)
- Understand possible explanations for the decline in union membership in the US (5)
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- Explain the Supplemental Nutrition Assistance Program and Medicaid (5)
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- Use a quintile income distribution to calculate and graph a Lorenz curve (10)
- Explain how a Lorenz curve measures inequality (5)
- Understand how income inequality has been affected by household composition and labor demand (5)

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- Define redistribution, progressive tax, effective income tax (4)
- Explain the ladder of opportunity and estate tax (5)
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- Explain asymmetric and imperfect information and how the "lemons" problem can arise (5)
- Explain how markets with imperfect information will have trouble reaching an equilibrium price (5)
- Explain how money-back guarantees, warranties, and service contracts reduce the risk of imperfect information (5)
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- Calculate actuarial fair premiums (40)
- Identify the government social insurance programs in the US (5)
- Understand risk groups and their effect on premiums (40)
- Understand moral hazard and what insurance companies can do to present it (5)
- Define adverse selection and describe how this can be a problem for insurers (5)
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- Understand the role for government in insurance markets (5)
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- Explain financial markets and understand venture capital and profits as source of financial capital (5)
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- Explain how corporations raise money and give investors a return on investment (5)
- Define private and public companies (5)
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### 17.2 How Households Supply Financial Capital

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- Define important bond terminology (5)
- Calculate a bond's yield rate (40)
- Understand the major US stock indexes (4)
- Define diversification, mutual funds, and index funds (4)
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  - Define labor productivity and understand the factors that affect labor productivity (4)
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- Understand which components of economic growth have been found to be most important (4)
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- Understand how the BLS calculates unemployment and potential issues with the measurement (5, 5)
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- Explain the shape of the aggregate demand curve and identify it on a graph (4)
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- Define short run aggregate supply and long run aggregate supply (4)

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- Understand the natural rate of unemployment and explain how shifting aggregate demand affects real GDP and the price level (5)
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- Explain M1 money (5)
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- Explain financial intermediary and the role of banks in reducing transactions costs (5)
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- Explain bank regulation and bank supervision (4)
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- Explain the Federal Open Market Committee, open market operations, and the federal funds rate (5)
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- Explain how the Fed can use reserve requirements and the discount rate to affect the money supply (4)

### 28.3 Monetary Policy and Economic Outcomes

- Explain how changes in the money supply affect the equilibrium interest rate and use a supply and demand for loanable funds graph to illustrate this (4)
  - Explain how monetary policy affects aggregate demand and illustrate this graphically (10)
  - Use an AD/AS diagram to illustrate the effects of countercyclical monetary policy (4)
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- Understand Fed responses to economic conditions and how quantitative easing was used during the Great Recession (4)

#### 28.4 Pitfalls for Monetary Policy

- Explain how excess reserves and deflation can reduce the effectiveness of monetary policy (4)
- Understand the quantity equation of money and what this equation means for expansionary monetary policy (4)
- Understand the neoclassical view of monetary policy and explain inflation targeting (4)
- Define the leverage cycle and explain why central banks might address asset prices (4)
- Use the quantity equation of money to calculate the impact of monetary policy (5)

### **Chapter 29: Exchange Rates and International Capital Flow**

#### 29.1 How the Foreign Exchange Market Works

- Define the foreign exchange market and identify which currencies are traded most frequently (5)
- Define Foreign Direct Investment and portfolio investment and explain hedging (4)
- Identify demanders and suppliers of U.S. dollars on the foreign exchange market (4)
- Define currency appreciation and depreciation and understand who benefits from appreciation and depreciation of the US dollar (4)

#### 29.2 Demand and Supply Shifts in Foreign Exchange Markets

- Understand equilibrium in the foreign exchange market (4)
- Understand how expectations affect the demand and supply for currency (4)
- Understand how changes in expectations of future exchange rates affect equilibrium in the foreign exchange market (4)
- Understand how differences in relative rates of return across countries affect the foreign exchange market (4)
- Understand how differences in relative inflation affect the foreign exchange market (4)
- Define arbitrage and purchasing power parity (4)

#### 29.3 Macroeconomic Effects of Exchange Rates and Exchange Rate Policies

- Understand how exchange rates impact exports and international borrowers (4)
- Explain floating exchange rate, soft peg, and hard peg (4)
- Understand how monetary policy can be used to affect exchange rates and explain Tobin taxes (4)
- Explain merged currency and understand how a bank can conduct countercyclical monetary policy under different foreign exchange policies (4)

### **Chapter 30: Government Budgets and Fiscal Policy**

#### 30.1 Government Spending and Taxation

- Define budget deficit, budget surplus, and balanced budget (4)
- Understand the components of federal, state, and local government spending (5)
- Explain sources of federal tax revenues (5)
- Explain marginal tax rate, progressive tax, proportional tax, and regressive tax (4)
- Explain the components of state and local tax revenues (5)

#### 30.2 Federal Deficits and the National Debt Using Fiscal Policy to Fight Recession, Unemployment, and Inflation

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- Understand national debt and identify historical patterns of spendings, tax revenues, and deficits (4)
- Explain the tools of fiscal policy and define expansionary and contractionary fiscal policy (5)
- Illustrate the effect of expansionary fiscal policy on macroeconomic equilibrium in an AD/AS diagram (10)
- Illustrate the effect of contractionary fiscal policy on macroeconomic equilibrium in an AD/AS diagram (10)

### 30.3 Automatic Stabilizers, Problems with Discretionary Fiscal Policy, and the Debate of a Balanced Budget

- Explain the role of automatic stabilizers in counteracting recession and boom (5)
- Understand how increased government spending impacts interest rates and investment (5)
- Explain lags in fiscal policy (5)
- Explain additional limitations of fiscal policy (4)
- Explain the debate over balancing the budget (5)

## **Chapter 31: The Impacts of Government Borrowing**

### 31.1 How Government Borrowing Affects Investment and the Trade Balance

- Explain the national savings and investment identity and apply the investment-savings equation (10)
- Understand how a change in the budget deficits impacts price investment, private savings, or trade deficits (4)

### 31.2 Fiscal Policy and the Trade Balance

- Explain twin deficits and understand the relationship between foreign national investment and budget deficits (4)
- Explain how budget deficits affect the demand and supply for currency and illustrate this graphically (5)
- Illustrate the effects of budget deficits on the exchange rate using a supply-demand diagram (10)
- Explain how high budget deficits can lead to recession and how fiscal policy can be used to address trade imbalances (5)

### 31.3 Ricardian Equivalence, Fiscal Policy, Investment, and Economic Growth

- Explain Ricardian equivalence and identify whether Ricardian equivalence takes place (4)
- Explain crowding out and identify the historical relationship between budget balance and private investment spending (5)
- Use a supply and demand diagram to illustrate the effect of budget deficits on interest rates (10)
- Explain how the government invests in physical capital, human capital, and technological growth (5)

## **Chapter 32: Macroeconomic Policy Around the World**

### 32.1 The Diversity of Countries and Economies Across the World

- Define low, middle, and high income country and understand how these countries vary in population and share of world income (4)
  - Explain how differences in geography, demographics, industry structure, and economic institutions contribute to differences in GDP per capita around the world (4)
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- Understand growth policies appropriate for high-income countries (5, 5)
- Understand growth policies appropriate for middle-income countries (4)
- Understand growth policies appropriate for low-income countries (5)
- Explain the causes of unemployment around the world (4)
- Explain causes and solutions to inflation in various parts of the world (5, 5)
- Define NAFTA and explain concerns related to trade (5)

### **Chapter 33: International Trade**

#### 33.1 Absolute and Comparative Advantage

- Explain comparative advantage and determine which country has an absolute advantage in producing a good (5, 5)
- Draw a country's production possibilities frontier (10)
- Calculate a country's opportunity cost of producing one unit of a good and use this to determine comparative advantage (10)
- Explain the relationship between comparative advantage and specialize and calculate world production before and after specialization (10)
- Illustrate how trade can move a country beyond its production possibilities frontier (10)

#### 33.2 Absolute Advantage, Intra-Industry Trade Between Similar Economies, and Reducing the Barriers to International Trade

- Relate absolute advantage and labor productivity and calculate the increase in world output due to specialization even if one country has both absolute advantages (10)
- Illustrate gains from trade when one country has an absolute advantage in both goods (10)
- Explain why comparative advantage increases production for all countries (5)
- Define and explain intra-industry trade (4)
- Explain the World Trade Organization and understand the benefits to reducing trade barriers (4)

### **Chapter 34: Globalization and Protectionism**

#### 34.1 Protectionism: An Indirect Subsidy from Consumers to Producers

- Explain protectionism, GATT, and WTO (4)
- Identify equilibrium prices for a good in two countries with and without trade (10)
- Calculate exports and imports using supply and demand diagrams (10)
- Identify gains from trade on a supply and demand diagram (5)
- Use a supply and demand diagram to illustrate the impact of imports and identify the impact on domestic market price (10)
- Explain who benefits and who loses from protectionism (5)

#### 34.2 The Effects of International Trade and Arguments in Favor of Restricting Imports

- Explain how protectionism and trade affect jobs, wages, and working conditions (4)
- Explain the infant industry argument and dumping (4)
- Explain the environmental protection argument, the unsafe consumer products argument, and the national interest argument (4)

#### 34.3 How Governments Enact Trade Policy and The Tradeoffs of Trade Policy

- Explain The main objective of the WTO/GATT and understand regional trade agreements (5)
  - Explain the relationship between free trade and domestic interests and how trade policy has evolved over time (4)
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- Explain why free trade should be a first priority for policymakers (4)

## **Appendix**

### Indifference Curves

- Draw an indifference curve (10)
- Interpret an indifference curve and explain its slope (5)
- Explain why higher indifference curves are preferred to lower ones and how indifference curves differ across individuals (4)
- Understand how an individual uses indifference curves and a budget line to maximize utility (5)
- Explain how changes in income affect the utility maximizing choice (4)
- Identify the income and substitution effects graphically (10)
- Draw a labor-leisure indifference curve and budget line (10)
- Explain the effect of a change in the wage on a worker's labor-leisure choice (5)
- Draw an intertemporal choice indifference curve and budget line (10)
- Explain the effect of a change in the interest rate on the choice between present and future consumption (5)
- Sketch income and substitution effects (10)

### Present Discounted Value

- Calculate present discounted value of a stock (10)
- Calculate present discounted value of a bond and understand the relationship between present value and interest rates (10)

### The Expenditure-Output Model

- Identify aggregate expenditure, the 45-degree line, and potential output on a graph (5)
  - Define MPC and MPS (4)
  - Draw a pre-tax consumption function (10)
  - Explain the investment function and government spending function (4)
  - Draw a post-tax consumption function (10)
  - Explain the exports function and draw an imports function (10)
  - Use the expenditure-output model to calculate expenditure and analyze how changing components affect expenditure (10)
  - Explain equilibrium in the Keynesian cross model (10)
  - Identify inflationary and recessionary gaps on an aggregate expenditure gap (5)
  - Calculate and explain the spending multiplier (10)
  - Use the spending multiplier to calculate the effect of an increase in spending on Real GDP (10)
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